

Wisconsin State Legislature

SENATE CHAIR
ALBERTA DARLING

317 East, State Capitol
P.O. Box 7882
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ASSEMBLY CHAIR
ROBIN VOS

309 East, State Capitol
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Joint Committee on Finance *100TH ANNIVERSARY 1911-2011*

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative Robin Vos

Date: September 6, 2011

Re: SWIB Report to JFC

Attached is a report from the State of Wisconsin Investment Board pursuant to s. 25.17(13m), Stats

With the passage of Act 32, Section 25.17(13m) of the statutes was amended to allow SWIB to provide a more comprehensive quarterly report on costs and how they are affected by investment management activities. Previous statutory language directed SWIB to report on a subset of its cost. The changes also require SWIB to report FTE positions created or abolished during the quarter.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

AD:RV;jm



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SEP 06 2011

BY: St. Finance

August 15, 2011

Senator Alberta Darling, Co-Chair
Joint Committee on Finance
P.O. Box 7882
Madison WI 53707-7882

Representative Robin Vos, Co-Chair
Joint Committee on Finance
P.O. Box 8952
Madison WI 53708-8952

Senator Robert Cowles, Co-Chair
Joint Committee on Audit
P.O. Box 7882
Madison WI 53707-7882

Representative Samantha Kerkman, Co-Chair
Joint Committee on Audit
P.O. Box 8952
Madison WI 53708-8952

Mr. Michael Huebsch, Secretary
Department of Administration
101 East Wilson Street
P.O. Box 7864
Madison, WI 53707-7864

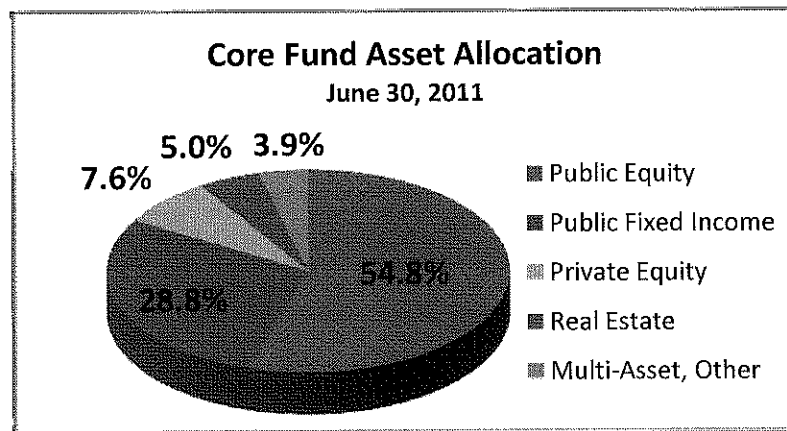
Dear Senator Darling, Senator Cowles, Representative Vos, Representative Kerkman and Secretary Huebsch:

With the passage of Act 32, section 25.17 (13m) of the statutes was amended to allow SWIB to provide a more comprehensive quarterly report on costs and how they are affected by investment management activities. Previous statutory language directed SWIB to report on a subset of its costs. The changes also require SWIB to report FTE positions created or abolished during the quarter. We hope the information contained in this report for the period ending June 30, 2011, will be helpful in better understanding how the trust funds are managed and the cost of management.

Asset Allocation and Investment Strategies Drive Costs

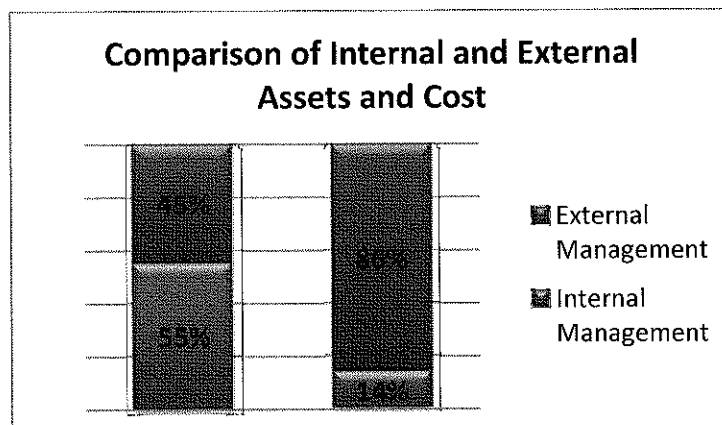
Once a year, the Board of Trustees and SWIB's investment staff undertakes a rigorous asset allocation process to determine the appropriate mix of assets necessary to meet trust fund liabilities with an acceptable level of risk. Several factors such as diversification, interest rate sensitivity, correlation with other assets and expected returns are considered when determining an optimal asset mix to manage. Asset allocation is important in the context of total cost because some asset classes cost more. Private market investments typically cost more to implement than public market investments but also have the potential for greater long-term investment returns. Using different investment strategies adds diversification, which lowers the overall risk to the funds.

SWIB's asset allocation for the Core Fund, which comprises 87% of the assets under management, is similar to allocations of other large public pension funds.



To implement various asset class investment strategies, SWIB optimizes its use of resources and weighs costs and benefits of using internal or external asset management. Some resource-intensive investment strategies or those that require specific expertise difficult to obtain in the marketplace, such as private equity and emerging markets, are more effectively managed by external money managers. However, many public market strategies are more cost effectively managed using internal resources. All of SWIB's costs, including internal operating costs, are charged to the trust funds under management.

As of June 30, 2011, SWIB was managing 55% of the trust fund assets internally (see chart below). Costs to manage these assets internally for the one-year period ending June 30, 2011 represented 14% of the total cost of management. The remaining costs are fees paid for external management.



Internal Management Is Cost Effective

On an annual basis, SWIB compares its cost effectiveness to 15 large U.S. public pension funds using a consulting firm, CEM Benchmarking, Inc. For the calendar year 2010, SWIB was a low cost manager compared to its peers. CEM attributed most of the cost savings to SWIB's greater use of internal asset management and lower fees paid to external asset managers for similar assets.

CEM statistical analysis shows that over the long-term, funds with more internal management outperform those with less on a net of fees basis primarily because internal management is less expensive than external management. The CEM analysis includes data over a 20-year period and is compiled from hundreds of global pension funds.

To reduce public market management costs and increase net investment returns SWIB has been gradually building its internal capacity and staffing in order to be able to manage more assets internally. Since December 31, 2007, SWIB increased its staffing from 113.5 to 125.25 FTE and has been able to increase assets managed internally from 25.6% to 55.4% or \$48.6 billion of all trust fund assets (See Attachment A for additional information). In April 2011 SWIB moved approximately \$5.1 billion from an externally managed international index fund to internal management.

All Assets Under Management					
	12/31/2007	12/31/2008	12/31/2009	12/31/2010	6/30/2011
Internal Management	25.6%	43.0%	45.0%	50.1%	55.4%
External Management	74.4%	57.0%	55.0%	49.9%	44.6%
SWIB Internal Staffing - FTE	113.50	124.25	124.25	125.25	125.25

The following chart shows SWIB's total cost of management for the quarter and year ending June 30, 2011. Over a one-year period ending June 30, 2011, SWIB's total cost of management is 29 basis points (0.29%) or 29 cents for every \$100 managed. Attachment B and C provides details of services and related quarterly costs.

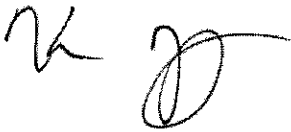
Cost of Management	2nd Quarter 2011 Cost	Year Ending June 30, 2011	% of Costs
Internal Operating Costs:			
Agency Operating Expenses	\$ 8,029,540	\$25,429,143	10.2%
Asset Custody	\$ 129,379	544,731	0.2%
Legal Fees	\$ 148,317	312,908	0.1%
Investment Research & Consulting	\$ 2,588,446	9,315,531	3.7%
Total Internal Operating Costs:	\$ 10,895,682	\$35,602,313	14.2%
External Management Fees:			
Real Estate Advisory/Asset Management	\$ 10,824,566	\$39,204,355	15.7%
Private Equity Management	\$ 22,196,756	89,247,795	35.7%
Public Market Separate Accounts	\$ 12,584,361	50,428,826	20.2%
Public Market Commingled Accounts	\$ 9,781,042	35,756,172	14.3%
Total External Management Fees	\$ 55,386,725	\$214,637,148	85.8%
Total Cost of Management	\$ 66,282,407	\$250,239,461	
Average Assets Under Mgmt (in billions)		\$85.3	
Cost in Basis Points (all funds)		29.3	

Internal operating costs include salary and fringe benefits for internal staff, technology, research and market data services, asset custody fees, legal services and investment consulting. These costs totaled \$10.6 million for the second quarter.

External management fees make up the largest component of the trust funds' costs. During the second quarter period, fees paid to external managers were approximately \$55.2 million. This category includes fees paid to asset managers for public market, private market, and real estate asset management. Portfolios managed as separate accounts have individual assets held in custody specifically for SWIB. For commingled accounts, SWIB buys a share of a fund and the underlying assets are pooled.

As new investment strategies are implemented and as markets change, SWIB will continue to evaluate the most efficient means to manage the trust fund assets. We hope this report provides a comprehensive representation of the costs SWIB incurs to manage the assets of the trust funds including the WRS. Please contact me, however, if you have any questions or comments about the report.

Sincerely,

A handwritten signature in black ink, appearing to be 'K Bozarth', with a stylized flourish at the end.

Keith Bozarth
Executive Director

Attachments

cc: Members, Joint Committee on Finance
Members, Joint Committee on Audit
Robert Lang, Legislative Fiscal Bureau
Joe Chrisman, Legislative Audit Bureau

Total Assets Under Management

Wisconsin Retirement System (WRS)	12/31/2007		12/31/2008		12/31/2009		12/31/2010		6/30/2011	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$18,192	20.7%	\$23,263	37.6%	\$30,017	41.2%	\$37,367	47.3%	\$43,446	52.7%
Externally Managed Dedicated Accounts	16,060	18.3%	11,742	19.0%	14,332	19.7%	15,103	19.1%	16,419	19.9%
Externally Managed Commingled Accounts	53,551	61.0%	26,798	43.4%	28,496	39.1%	26,596	33.6%	22,620	27.4%
1. Passive Index Funds	25,566	29.1%	10,008	16.2%	12,530	17.2%	12,542	15.9%	8,384	10.2%
2. Enhanced Index Commingled Funds	18,665	21.3%	7,886	12.8%	5,668	7.8%	1,800	2.3%	1,529	1.9%
3. Limited Partnerships	5,744	6.5%	6,419	10.4%	5,945	8.2%	7,486	9.5%	8,196	9.9%
4. Actively Managed Commingled Accounts	3,577	4.1%	2,486	4.0%	4,353	6.0%	4,768	6.0%	4,511	5.5%
TOTAL WRS Assets	\$87,803	100.0%	\$61,803	100.0%	\$72,845	100.0%	\$79,067	100.0%	\$82,486	100.0%

State Investment Fund - Internally Managed	\$5,045		\$5,265		\$4,544		\$3,974		\$4,558	
Various Funds Internally Managed	\$755		\$619		\$630		\$632		\$629	
Various Funds Externally Managed	\$123		\$118		\$120		\$120		\$107	

Total Assets Under Management	\$93,726		\$67,805		\$78,138		\$83,794		\$87,780	
Total Internal Management	\$23,992	25.6%	\$29,147	43.0%	\$35,191	45.0%	\$41,974	50.1%	\$48,634	55.4%
Total External Management	\$69,734	74.4%	\$38,658	57.0%	\$42,947	55.0%	\$41,820	49.9%	\$39,146	44.6%

STATE OF WISCONSIN INVESTMENT BOARD
Charges to All Funds Under Management
Quarter Ending June 30, 2011

Charge Category	Service Provided	Charges
Internal Operating Costs		
Staff Compensation	Staff Compensation	5,518,839
Fringe Benefits	Fringe Benefits	1,392,069
Equipment, Supplies, & Services	General Operating Costs Supporting Internal Operations	<u>1,118,631</u>
Total Internal Operating Costs		\$8,029,538
Custodial and Banking Fees		
Bankers' Bank	Wisconsin CD Program	2,500
BNY Mellon	Master Custody Services	126,797
US Bank	State Banking Services	<u>82</u>
Total Custodial and Banking Fees		\$129,379
Legal Fees, Services and Expenses		
Chapman & Cutler	Legal Work for Investment Strategies	213
Cox, Castle & Nicholson	Legal Work for Investment Strategies	9,353
Foley & Lardner	Legal Work for Investment Strategies	119,130
Quarles & Brady	Legal Work for Investment Strategies	18,683
Reinhart Boerner Van Dueren	Legal Work for Investment Strategies	<u>938</u>
Total Legal Fees, Services and Expenses		\$148,317
Investment Counsel		
Advent Software, Inc.	Research Management System	42,240
Alberdon International	Financial Market Data	3,201
Barclays Capital Inc.	US Constituent Data Feed	24,791
BCA Publications	Global & Domestic Fixed Income Strategy Research	27,085
BioCentury Publications	Biotech Stock News	1,249
Bloomberg, LP	Market, Company, Industry & Benchmark Information	327,692
BNY Mellon	Eagle Pace Implementation	153,619
Callan Associates Inc.	Investment Consulting	40,000
CanDeal.ca Inc.	Canadian Government Bond Trading Service	1,050
Charles River Systems, Inc.	Portfolio Management and Trading Software	118,503
Cliffwater LLC	Hedge Fund Investment Consulting	157,500
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitoring and Consulting	71,250
Covenant Review, LLC	Corporate Bond Research	3,750
Credit Sights	Credit Assessments	18,750
Cross Current Research, LLC	Healthcare Sector Research	11,500
Cutter Associates	Investment Organizational and Systems Consultant	180,350
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	11,835
Data Explorers Limited	Securities Lending Analysis	4,710
Davis Mendel & Regenstein, Inc.	Online Investment Research & Market Data	11,250
Dominion Bond Rating Service (DBRS)	Credit Ratings & Research Reports for Corporate Bond Issuers	1,236
Dow Jones & Co	Company and Industry News Service	10,866
Elsevier Business Intelligence	Prescription Pharmaceutical Industry Data	1,074
Factset Data Systems	Financial & Economic Database	90,892
Financial Tools, Inc.	Financial Statement Spreadsheet Software License	325
Fitch Info., Inc.	Credit Rating Service	9,012
FTSE International LTD	Real Time Index Data	948
Gartner, Inc.	Technology Sector Research	10,626
Gimme Credit	Credit Research	1,646
Haver Analytics	Global Macroeconomic Research	17,052

STATE OF WISCONSIN INVESTMENT BOARD
Charges to All Funds Under Management
Quarter Ending June 30, 2011

Charge Category	Service Provided	Charges
Hewitt EnnisKnupp	Manager Monitoring/Searches, Fiduciary & Governance Consulting	55,313
iMoneyNet, Inc	Money Market Fund Database	12,156
Institutional Investor	Investment Data and Research	16,942
Investor Responsibility & Support Services, Inc	Securities Class Action Services	8,748
ITG Solutions Network Inc.	Trading Transaction Cost Analysis	18,750
KPA Advisory Services	Investment Organization Research	1,251
Lombard Street Research	Global Economic Analysis	16,833
London Stock Exchange PLC	London Stock Exchange Data	7,366
Market Axess Corporation	Bond and Yield Pricing	600
Market Data Services Ltd. (MDSL)	Market Data Management System	4,485
McLagan Partners	Investment Compensation Data and Analysis	8,750
Moody's Analytics, Inc.	Economic, Currency & Bond Analysis	43,232
Morgan Stanley Capital International	Developed Markets Security Data	37,586
Morningstar, Inc.	Benchmark & Performance Data/Historical Return Analysis	535
National Bureau of Economic Research Inc.	Economic Conditions and Asset Returns Data	469
National Council of Real Estate Investment Fiduciaries	Real Estate Performance	624
New York Stock Exchange	New York Stock Exchange Data	7,198
Omgeo	Post Trade Settlement Information	6,093
Options Price Reporting Authority (OPRA)	Quote System for Options Market	336
PerTrac	Fund of Funds Analytical Platform	6,757
Pivot Inc.	Trade Desk Collaboration Services	2,250
Platts	European Power Markets Research	649
Prequin	Real Estate Online Database	1,200
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,497
QTI Professional Staffing, Inc	Investment Staff Recruitment Consulting	38,469
Quantitative Services Group LLC	Access to Quantitative Data	32,499
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	3,123
RiskMetrics Group	Volatility and Correlation Data/Proxy Voting Analysis	35,949
RiskMetrics Solutions	Hedge Fund Reporting Platform	18,750
Roubini Global Economics, LLC	Macro Economic Research	7,500
Russell Investment Group	Index Data Feeds	7,500
S.R. Batliboi & Company	Tax Compliance Services Required by Government of India	25,850
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
SNL Financial	Customized Analysis of Bank Investments	15,261
Standard & Poor's	Industry & Corporate Research	65,215
StepStone Group LLC	Private Equity Consulting	300,000
Strategic Economic Decisions	Research Reports	18,751
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	70,000
StreetAccount LLC	Investment Research	1,650
Telsey Advisory Group	Consumer Sector Research	31,248
Texas Teachers Retirement System	Enterprise Risk Management Presentation	475
The Corporate Library	Proxy Voting Research	4,875
The Markets.com	Detailed Research Service	(7,875)
The World Markets Company PLC	Closing Spot and Forward Rates	2,145
Thomson Financial Services	Electronic Research Pricing (Autex, Baseline, FirstCall)	94,488
Toronto Stock Exchange	Market Data/Traders	3,795
Trade Web	On-Line Fixed Income Trading Service	7,657
Trade Markets	On-Line Fixed Income Trading Service	750
UW School of Business	Investment Research Partnership	36,000
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	100,250
Wolfe Trahan & Co	Transportation and Macro Economic Research	12,000
Total Investment Counsel		\$2,588,446

STATE OF WISCONSIN INVESTMENT BOARD
Charges to All Funds Under Management
Quarter Ending June 30, 2011

Charge Category	Service Provided	Charges
Real Estate Investment Management Services		
Archstone - Smith Trust	Real Estate Management Services	210,714
Berkshire Property Advisors, LLC	Real Estate Management Services	356,492
Blackstone Management Partners VI LLC	Real Estate Management Services	562,202
Bristol Group, Inc.	Real Estate Management Services	78,042
BVP Managers, LLC	Real Estate Management Services	365,742
Callahan Capital	Real Estate Management Services	355,608
Capital Trust	Real Estate Management Services	174,686
Cornerstone Real Estate Advisors	Real Estate Management Services	296,027
Essex VFGP	Real Estate Management Services	125,000
Fortress Investment Corp.	Real Estate Management Services	1,036,330
Goldman Sachs & Co.	Real Estate Management Services	(4,170)
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	59,025
Hawkeye Partners LP	Real Estate Management Services	95,537
Heitman Capital Management Corp.	Real Estate Management Services	191,582
Henderson Global Investors (North America) Inc.	Real Estate Management Services	351,471
Hudson Advisors	Real Estate Management Services	834,989
Invesco Realty Advisors, Inc.	Real Estate Management Services	496,119
JP Morgan Investment Management	Real Estate Management Services	1,037,358
Kensington Realty Advisors	Real Estate Management Services	92,135
Kolli Bren Realty Advisors	Real Estate Management Services	1,083
KTR Capital Partners	Real Estate Management Services	556,677
Landmark Realty Advisors	Real Estate Management Services	1,479
Lazard Freres	Real Estate Management Services	84,546
Lowes Structured Real Estate	Real Estate Management Services	87,248
Mesa West Capital LLC	Real Estate Management Services	473,900
Morgan Stanley	Real Estate Management Services	153,474
Northwestern Mutual Life	Real Estate Management Services	5,088
Prudential (senior housing)	Real Estate Management Services	817,652
Rockpoint Group LLC	Real Estate Management Services	235,925
Rockspring Property Investment Managers	Real Estate Management Services	114,290
RREEF	Real Estate Management Services	549,110
Security Capital	Real Estate Management Services	239,160
Sentinel Realty Advisors Corp.	Real Estate Management Services	55,861
The Blackstone Group	Real Estate Management Services	(298)
Westbrook Real Estate	Real Estate Management Services	734,482
Total Real Estate Investment Management Services*		\$10,824,566
Private Equity Management		
Advent International GPE VI, L.P.	Private Equity Management	216,420
Alchemy Partners	Private Equity Management	76,005
Alta Communications IX, LP	Private Equity Management	112,500
American Securities	Private Equity Management	551,260
Ampersand Ltd Partnership	Private Equity Management	51,343
Apollo Management L.P.	Private Equity Management	878,035
Ares Corporate Opportunities Funds	Private Equity Management	493,058
Avalon Ventures IX, LP	Private Equity Management	193,862
Avenue Situations Funds	Private Equity Management	512,058
Baird Venture Partners	Private Equity Management	219,351
BC European Capital	Private Equity Management	18,941
Bear Stearns	Private Equity Management	177,855
Birch Hill Equity II	Private Equity Management	(24,450)

STATE OF WISCONSIN INVESTMENT BOARD
Charges to All Funds Under Management
Quarter Ending June 30, 2011

Charge Category	Service Provided	Charges
Blackstone Partners	Private Equity Management	240,148
Boston Millennia	Private Equity Management	78,125
Bridgepoint Europe	Private Equity Management	620,902
Caltius Partners IV, L.P.	Private Equity Management	250,000
Capital Res Partners IV LP	Private Equity Management	5,590
Carlyle Partners	Private Equity Management	287,070
Centerbridge Capital Partners II, L.P.	Private Equity Management	364,804
Cerberus Institutional Partners LP	Private Equity Management	337,500
Charterhouse	Private Equity Management	725,126
Clessidra Capital Partners II	Private Equity Management	158,435
Collier International	Private Equity Management	243,209
Cortec Group Fund V, L.P.	Private Equity Management	(38,386)
CVC European Equity Partners	Private Equity Management	306,180
Cypress Advisors, LP	Private Equity Management	3,535
DAG Ventures IV, LP	Private Equity Management	93,599
Doll Technology Investment Fund II LP	Private Equity Management	15,000
Drug Royalty II, S.ar.I.	Private Equity Management	187,495
EnCap Energy Capital Fund VIII, L.P.	Private Equity Management	168,750
EQT V, L.P.	Private Equity Management	211,115
Fortress Invest Funds	Private Equity Management	474,564
Frazier	Private Equity Management	157,750
Friedman Fleischer & Lowe Capital Partners III, L.P.	Private Equity Management	(11,999)
Glide Buy-Out Fund IV, C.V.	Private Equity Management	177,542
Gores Capital Partners III, L.P.	Private Equity Management	93,929
Graphite	Private Equity Management	363,728
Green Equity Partners V	Private Equity Management	190,253
Hamilton Lane Co-Investment Fund II, L.P.	Private Equity Management	759,908
Harbourvest International	Private Equity Management	83,340
Hellman & Friedman Capital VI	Private Equity Management	281,063
IGP II	Private Equity Management	2,982
Insight Equity	Private Equity Management	278,861
JMI Equity Fund VII	Private Equity Management	112,925
Kelso	Private Equity Management	462,831
KKR Funds	Private Equity Management	1,002,533
Kohlberg Investors VI, LP	Private Equity Management	108,448
KRG Capital Funds	Private Equity Management	4,629
Lake Pacific	Private Equity Management	220,000
Lindsay Goldberg	Private Equity Management	670,441
Lone Star Funds	Private Equity Management	492,863
Mason Wells Partners I, LLC	Private Equity Management	45,582
Mayfield XI LP	Private Equity Management	17,272
Merit Mezzanine Fund V, L.P.	Private Equity Management	218,750
Montreux Equity Partners IV, L.P.	Private Equity Management	117,202
New Mountain Partners III, L.P.	Private Equity Management	513,712
Oak Investment Partners	Private Equity Management	467,688
OCM Opportunities Funds	Private Equity Management	361,394
Old Lane India Opportunities Fund-T, LP	Private Equity Management	90,353
Peninsula Funds	Private Equity Management	441,228
Pomona Capital	Private Equity Management	268,435
Providence Funds	Private Equity Management	461,052
Riverstone/Carlyle GE&P IV	Private Equity Management	317,511
SAIF Partners IV, L.P.	Private Equity Management	187,500

STATE OF WISCONSIN INVESTMENT BOARD
Charges to All Funds Under Management
Quarter Ending June 30, 2011

Charge Category	Service Provided	Charges
Seaport Capital Partners II	Private Equity Management	17,100
Segulah IV, L.P.	Private Equity Management	116,967
Sheridan Production Partners II-B, L.P.	Private Equity Management	281,250
SilverStone III, L.P.	Private Equity Management	37,625
SKM Equity Fund III, LP	Private Equity Management	21,336
Sterling Group Partners III, L.P.	Private Equity Management	236,997
TA	Private Equity Management	268,440
TAC 2007, L.P.	Private Equity Management	26,837
TCV VII	Private Equity Management	281,152
Thomas Lee	Private Equity Management	115,661
TowerBrook Investors III, L.P.	Private Equity Management	225,810
TPG Partners	Private Equity Management	707,804
Trident, L.P.	Private Equity Management	419,153
Venture Investors Early Stage Fund IV	Private Equity Management	156,250
Vista Equity Partners Fund III, L.P.	Private Equity Management	143,669
Warburg Pincus Private Equity	Private Equity Management	1,026,980
Waterland Private Equity Fund IV, C.V.	Private Equity Management	212,865
Wayzata Opportunities Fund II	Private Equity Management	437,500
Windpoint Partners	Private Equity Management	294,658
Total Private Equity Management**		\$22,196,756
Commingled Account Public Market Management Fees		
AQR Capital Management, LLC	Risk Parity Manager	283,687
BlackRock Institutional Trust Company N.A.	Quantitative/Enhanced & Index Fund Management	1,813,394
Boston Company, The	Equity Emerging Market Management	1,700,028
Bridgewater Associates	Risk Parity Manager	282,425
Callan Associates Inc.	Fund-of-Funds Small Cap Equity Management	1,114,486
Capital Guardian Trust Company	Emerging Market Fixed Income Active Management	539,670
Capula	Hedge Fund Investment Management	844,312
MKP Credit	Hedge Fund Investment Management	349,404
T. Rowe Price Trust Company	Equity Emerging Market Management	1,863,834
UBS Global Asset Management	Multi-Asset Management	488,108
ValueAct Capital	Multi-Asset Management	151,671
Wellington Management Company, LLP	Fixed Income Emerging Market Management	350,025
Total Commingled Account Public Market Management Fees		\$9,781,042
Separate Account Public Market Management Fees		
Aberdeen Asset Management	Global Fixed Income/Emerging Active Management	710,050
Acadian Asset Management	International & Emerging Market Equity Active Management	1,561,257
American Century Investments	International Equity Active Management	450,778
Brandywine Asset Management	Global Fixed Income Active Management	176,379
Bridgewater Associates	Global Fixed Income Active Management	1,248,959
Dodge & Cox	US Credit/Government Bond Management	294,333
EII Realty Services, Inc.	Real Estate Investment Trust	309,420
Intech Investment Management	Quantitative Large Cap Equity Management	993,238
JP Morgan Investment Management	Global Equity Management	848,481
Loomis, Sayles & Co.	High Yield Fixed Income Active Management	484,606
LSV Asset Management	Global Equity Active Management	1,778,075
Mellon Transition Management	Transition Management Service	28,700
Morgan Stanley Asset Management	International Equity Active Management	1,199,981
Pyramis Global Advisors Trust Company	International Equity Active Management	1,114,173
RREEF America LLC	Real Estate Investment Trust	342,234

STATE OF WISCONSIN INVESTMENT BOARD
Charges to All Funds Under Management
Quarter Ending June 30, 2011

Charge Category	Service Provided	Charges
Shenkman Capital	High Yield Fixed Income Active Management	406,846
Standish Mellon Asset Management LLC	Cash Management Service	57,149
Stone Harbor Asset Management	Emerging Market Fixed Income Active Management	<u>579,702</u>
Total Separate Account Public Market Management Fees		<u>\$12,584,361</u>
Total Quarterly Charges to Funds		<u>\$66,282,406</u>

**Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.*

***Expenses for private equity management fees are estimated and adjusted annually based upon committed capital or assets under management, determined by management contract terms. Total committed capital includes management fees. All capital contributions to the limited partnership must first be returned to the limited partners before any incentive fees are paid to the general partner.*

**** Capula Commingled Account Public Market Management Fees includes \$230,891 in performance fees inadvertently omitted from 1st quarter report.*

All costs reported are on an accrual basis except for internal operating costs which are on a cash basis of accounting.

Explanations of Expenses

Internal Operating Expenses

Internal operating expenses consist primarily of staff compensation and fringe benefits. SWIB employs a staff of professional investment and support staff to manage the trust fund assets. Other internal operating expenses consist of office equipment, supplies, business travel, information technology equipment and services, and general services.

Custodial & Banking Fees

Wisconsin Certificate of Deposit Program: Under a contract with SWIB, Bankers' Bank administers the program under which the State Investment Fund (SIF) purchases certificates of deposit from Wisconsin-based banks and thrifts. Most administrative costs are paid by the participating banks. SWIB's expenses are \$2,500 per quarter to help underwrite other administrative costs, such as insurance that SWIB requires to be purchased.

BNY Mellon: Provides master custody services (safekeeping of assets, income collection, valuations and accounting) for public and private domestic and foreign securities in the Wisconsin Retirement System (WRS), the SIF and the smaller funds. In addition, SWIB receives performance measurement and analytical services from BNY Mellon Analytical Solutions through its custodial contract with BNY Mellon, which serves as the official book of record for SWIB's accounting and performance measurement functions. BNY Mellon provides the data and analytical tools used by SWIB for compliance and risk management. Fees for these services are established by contract.

US Bank: The State of Wisconsin has contracted with US Bank to be the state's working bank. The fees paid to US Bank by the SIF reflect bank service charges that are not directly applicable to the fund participants. These fees are distributed to the fund participants through the monthly SIF earnings process.

Legal Fees, Services and Expenses

Under authority delegated by the Attorney General, pursuant to s. 25.18 (1) (a) Statutes, SWIB may employ legal counsel for any matters arising out of the scope of its investment authority. This includes legal services relating to bankruptcies, class actions, private markets transactions, fiduciary advice, securities law, investment litigation, and other similar matters. The Attorney General annually reviews and approves a list of law firms to provide investment legal services for SWIB and reviews related legal fees.

Investment Counsel

Current law gives SWIB the authority to employ investment counsel in any matters arising out of the scope of its investment authority. Investment research and services provided include global market, industry, economic and company information, financial and performance analytics, news information, pricing and exchange data, credit ratings, financial modeling, economic forecasting, trading services and a variety of Board consultations. These services enable SWIB to perform due diligence on current and future holdings and assist in monitoring investments.

Real Estate Investment Management Services

SWIB hires real estate advisors to assist with sourcing analysis, due diligence and management of real estate investments. SWIB also invests in funds, typically limited partnerships. Each fund either has a general partner or engages a fund manager with delegated authority to make real estate investments for the fund. Real estate advisory fees are usually based on a percentage of assets under management. Fees paid to fund managers are typically established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.